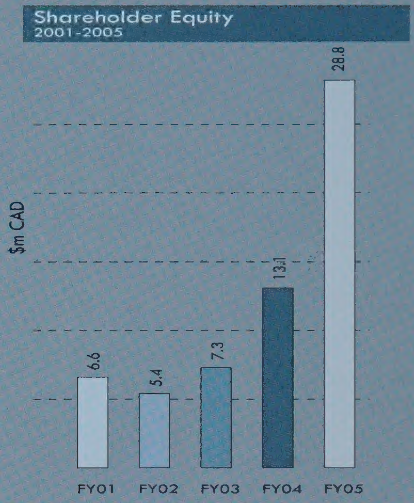
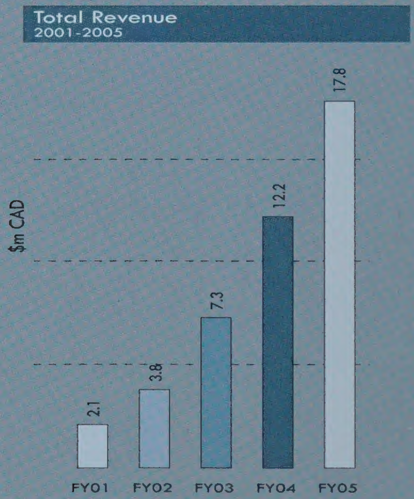
Chartwell Technology Inc.

2005 Annual Report

Growth in 2005

GROWTH IN 2005





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ANNUAL GENERAL AND SPECIAL MEETING

The Annual General and Special Meeting of Shareholders will be held on March 23, 2006 at 3:00PM at the Metropolitan Centre, Royal Room, Calgary, Canada.

Please see the note regarding Forward-looking Statements on page 51.


A WINNING HAND

PRESIDENT'S MESSAGE

Chartwell's 2005 fiscal year is perhaps best described as very "interesting", a very good year and still, very interesting. I am pleased to report that we were able to maintain our profitability and our growth throughout what was a somewhat difficult year from a capital markets perspective.

Fiscal 2005 represents our third consecutive year of profitability with 13 consecutive quarters of profits. In an industry with an impressive growth rate of anywhere between 15% and 20% we were able to grow our business at approximately 46%, reflecting our increasing market share.

We began the fiscal year with an $11 million financing designed to position our Company to benefit from the increased level of business consolidations which we saw as a trend and which we believe will continue for several years. In May, we acquired Micropower Corporation Limited which gave us a very significant technology boost in poker software and, more importantly, gave us a much needed expansion of our development group through the addition of approximately 20 new members to the Chartwell team. Since the acquisition, we have been working to fully integrate our development teams and our software systems to achieve the maximum benefit from this combined new strength in the online poker arena.

During the year our research coverage in the capital markets was greatly expanded with reports issued by four new firms bringing our total coverage to six analysts. A much higher

profile, combined with our strong business growth and dynamic industry sector, propelled our share price and investor expectations. From a management perspective, this much more intense scrutiny by industry analysts resulted in a more intense focus on financial performance metrics, primarily earnings per share. We were diligent in holding expense growth to approximately 33% while revenues increased by approximately 46%. Despite our intent to control costs, we continued with a very aggressive product development campaign.

In many cases, we chose to trade off development time for cost control. The result was a delay in the commercialization of our bingo community, our mobile games application and our kiosk gaming platform. These projects are all on track and will play an important role for our Company in 2006.

2005 represented a record year for new software licensing. A very strong sales pipeline going into the year resulted in a record sales conversion rate during the year. Although the majority of this new business did not contribute to fiscal 2005 revenue, it does position us well for the 2006 fiscal year. Our sales pipeline remains very robust and we anticipate another very strong year of sales and growth for Chartwell in 2006.

Over the past three years Chartwell has experienced extremely rapid growth from the product, sales, revenues and personnel perspectives. Expectations have been deservedly high from our shareholders, our employees and our management. Despite the recent delays we experienced, we have assembled the technology, products, clients and, most importantly, the PEOPLE to represent what we firmly believe is a winning hand in this extremely exciting and dynamic industry.

I would like to acknowledge and thank all of our stakeholders in this enterprise, our shareholders, our board of directors, our customers and our dedicated staff for their efforts and continued support. We remain firmly focussed and well positioned to achieve our common goals of growth and even greater profitability.

Sincerely,

Darold H. Parken,
President and CEO
January, 2006


SIGNIFICAN
GROWTH
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Fiscal Year 2005 In Review

Fiscal 2005 was a year of significant growth for Chartwell, both financially and operationally. Financially, we achieved record revenues, maintained quarterly profitability, increased our EBITDA and operating margins, strengthened our balance sheet and improved our working capital position. Operationally, we extended the capabilities and capacity of our product development, deployment and support teams through the acquisition of Micropower Corporation and a staged investment program for additional technical resources and supporting infrastructure. These investments enable the Company to initiate and accelerate development in a number of key product areas that will drive continued growth in the expanding market for our products.

With a solid financial foundation, an expanded product offering and a growing customer base, we have a strong platform from which to continue growing our business and extend this momentum in 2006 and beyond.

Notable achievements in 2005 included the following:

- Total revenue of approximately $17.8 million, an increase of 46.3% over 2004.
- License fee revenue of approximately $16.4 million, an increase of 45.5% over 2004.
- EBITDA of approximately $6.5 million, an increase of 71.4% over 2004.
- Improved operating margins to 35.7% compared to 29.6% in 2004.
- Cash flow from operations of approximately $3.5 million.
- Working capital of approximately $20.9 million, compared to $10.5 million in 2004.
- Four successive quarters of profitability.
- Achieved the 13th consecutive quarterly profit.
- $11.0 million financing.
- Named one of the Technology Fast 500 companies in North America, and in the Technology Fast 50 in Canada by Deloitte Touche.
- Acquisition of Micropower Corporation.
- Launch of our Poker Community.
- Expanded and diversified our customer base through the addition of new customers in Europe and the United Kingdom.

FAVOURABLE CONDITIONS

WHERE WE ARE NOW...

RECORD INDUSTRY RESULTS...

The year 2005 represented the online gaming industry's most visible and successful year, for a wide variety of reasons.

Certainly, the online gaming industry has never been in better health; record numbers of customers are playing games online, and record profits are being achieved by the major operators. Significant IPO activity, particularly on London's AIM market, coupled with a number of mergers and acquisitions boosted industry trade show attendances, and client interest, to record levels.

AND MAINSTREAM MEDIA INTEREST...

In particular, the industry's visibility and profile has soared, with media coverage – boosted by the wealth of mergers and acquisition activity, and the ever-growing profile of online poker – covering all of TV, radio and print news coverage for the first time. The industry found itself being covered by mainstream media – such as the BBC and Financial Times – which now covers market sector investment news, business results, product developments and industry trade shows on a weekly basis, unheard of even two years ago.

Coupled with that is an upsurge in the number of business analysts and industry commentators covering the sector, particularly in North America and Europe, yet another indicator of the sector's broadening interest and consumer awareness.

LEAD TO RECORD PROFILE, NEW CLIENTS AND FRESH OPPORTUNITIES FOR CHARTWELL.

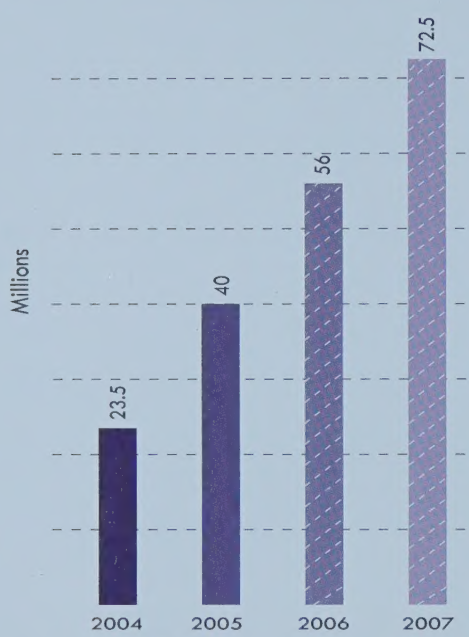
Chartwell has certainly contributed, with record trade press coverage, including our new product development, in the past 12 months, and huge increases in visitors to our trade show stands, which last year included London, Montreal, Singapore, Birmingham, Nice and Las Vegas. We also made our highest-ever number of trips to meet and brief analysts and investors last year, including Toronto, Montreal, London, Las Vegas and Zurich.

All this activity, plus our increasingly successful sales effort, has translated into a record number of new clients choosing Chartwell in 2005 and a record number of prospective clients on the sales database, our future new-revenue pipeline.

We shall continue to leverage our place in the market, exploiting our new business development skills, industry knowledge and product strengths. Ours is an exciting and fast-growing industry; at barely ten years old, it still possesses many new opportunities.


RECORD INDUSTRY RESULTS

European Broadband Connections
2004-2007



Source: EU Media Commissioners, 2005

WHERE WE ARE GOING...

EUROPE POWERS OUR GROWTH...

Our well-established business strategy of pursuing our expansion in Europe is paying off, with our record number of new clients gaining growth from pursuing both new European markets and new customer segments.

Most industry commentators agree that Europe has already overtaken North America in terms of Internet users, and predict that European broadband connections will increase by over 80% in the next two years. A proven aid to gaming growth, this suggests a further 32 million European households able to play online via a broadband connection by 2007.

European consumers increasingly demonstrate they are amongst the world's most confident users of e-commerce, with online gaming a fast-growing segment. Chartwell's existing clients now possess more than 7.5 million online registered customers who, collectively, produce annually some $4 billion in online gaming handle. With the vast majority of these customers domiciled in Europe, this represents an excellent base upon which to grow our future revenues.

...OSTED BY FRESH ...PORTUNITIES IN ...IA/PACIFIC...

...rtheless, Chartwell is committed to broaden ...gional focus and, during 2005, researched ... invested in new business opportunities ...he Asia/Pacific region, with sales and ...e show trips to Singapore, China, Japan ... Australia. We see significant growth ...ortunity for Chartwell ...he Asia/Pacific region in ...6 and beyond.

...W TYPES OF ...IENTS AND ...STOMERS...

... as important, we expect to see ... solidify a shift in the type of ...t seeking to offer Chartwell ...es to their customers.

... have already seen many ...ge consumer-facing companies ... completely new to online ...ing – look at adding new revenues to their ...e business, and take advantage of the growing ...sumer interest in online gaming.

...ith huge databases – measured in many millions ... some cases – coupled with highly-favourable ...lemographics and Internet-savvy consumers, we ...re confident this new type of client will become another solid revenue stream in 2006 and beyond.

Consumer interest is growing in new, largely untapped regions

AND AN INCREASINGLY POSITIVE LEGAL OUTLOOK.

The arrival of the UK's Gambling Act – enacted in 2005, and with the first operator licenses likely to be issued in the next 12 months – has already encouraged the EU Commission to undertake a current review of betting and gaming legislation. With an initial EU-commissioned study by the Swiss Institute for Comparative Law due to report in early 2006 – and in which Chartwell has participated – this represents another positive step toward EU-wide legislative harmonisation.

CONCLUSION...

We anticipate this powerful combination – continued Internet user and broadband growth, fresh sector interest from large database owners, broadening consumer interest from new and largely untapped regions, further positive legislative progress, plus an increasing overall consumer appetite for gaming products – will continue to deliver significant future revenue opportunities for Chartwell in 2006 and beyond.

Management's Discussion and Analysis of Financial Condition and Results of Operations for the years ended October 31, 2005 and 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with Chartwell Technology Inc.'s ("Chartwell" or the "Company") audited consolidated financial statements and the accompanying notes for the year ended October 31, 2005, which have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Additional information relating to the Company is available on SEDAR at www.sedar.com under Chartwell Technology Inc. and on the Company's website at www.chartwelltechnology.com.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking statements which reflect Management's expectations regarding the Company's growth, results of operations, performance and business prospects and opportunities.

Statements about the Company's future plans and intentions, results, levels of activity, performance or achievements or other future events constitute forward-looking statements. Whenever possible, words such as "anticipate', "estimate", "may", "will", "should", "could", "expect", "plan", "intend", "believe", "estimate", or "potential" or similar words, have been used to identify these forward-looking statements.

Forward-looking statements involve significant risk, uncertainties and assumptions. Many factors could cause actual results to differ materially from the results discussed or implied in the forward-looking statements. These factors should be considered carefully and readers should not place undue reliance on the forward-looking statements.

Factors which could cause results or events to differ from current expectations include, among other things: the impact of government legislation; the impact of price competition; the ability of the Company to retain and attract qualified professionals; the impact of rapid technological and market change; loss of business or credit risk with current and prospective major customers; general industry and market conditions and growth rates; currency rate fluctuations and the impact of consolidations in the online gaming industry. Chartwell disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

No assurance can be given that actual results, performance or achievement expressed in, or implied by, forward-looking statements within this disclosure will occur, or if they do, that any benefits may be derived from them.

Past performance has been considered in drawing conclusions with respect to forward-looking statements contained in this MD&A.

EBITDA is defined as earnings before interest, taxes, depreciation and amortization. EBITDA is not a recognized measure under Canadian generally accepted accounting principles. Management believes however that EBITDA is a useful supplementary measure as it provides indication of how results of Chartwell's typical business operations without regard to how these activities were financed or how these results were taxed. Chartwell's method of calculating EBITDA may differ from that of other companies, and accordingly, EBITDA may not be directly comparable to measures used by other companies.

OVERVIEW

Chartwell develops, markets, licenses, implements and supports gaming applications and entertainment content for the Internet and wireless platforms. Chartwell's Java and Flash based software products and games are designed for deployment in gaming, entertainment and promotional applications. Chartwell does not operate a gaming site nor do we operate our clients' gaming sites.

Business Plan

The Company's business plan and objectives through fiscal 2006 are to continue to increase our market share in the traditional Internet casino market, with a continued emphasis on the European market, further develop the liquidity of our poker community, establish liquidity in our bingo community, commercially release our Flash poker product and further develop poker variants and establish market share in these new market areas. We will continue to focus on product development and diversification of our products, customers and revenues.

Business Model

The majority of Chartwell's revenue is in the form of software license fees. License fees, including fees from master license agreements, most of which are contingent upon customer usage, are recognized on an accrual basis as earned over the life of the contract. Licensees pay an ongoing fee for the licensing and support of the Company's software under a software licensing agreement, which typically has a three to five year term. The license fee is calculated as a percentage of each licensee's level of activity. Additional sales revenue is derived from software setup-fees and software development fees. Software set-up fees are one time fees for new customer installations. The Company's contractual agreements with licensees provide for the provision of graphics, web design, software implementation services, licensing of the software and provision of software upgrades over the fixed term of the contract. Set-up fee revenue and related costs are recognized ratably over the term of the contract. Software development fees are fees that the Company charges for software development services relating to software programming services. These fees are recognized on a percentage-of-completion basis and reported in other revenue.

Expenses are classified into six categories, software development and support; sales and marketing; general and administrative ("G&A"); depreciation and amortization; stock-based compensation expense; and foreign currency gains or losses. Software development and support consists of

personnel and related costs associated with the design and development of new products, support of existing products, customer implementation and quality assurance. Sales and marketing expenses consist of personnel and related costs associated with the Company's sales, marketing and business development activities. G&A expenses include the costs of all administrative, financial and IT personnel, investor relations and professional fees relating to our public company listing. Stock-based compensation expense consists of the estimated fair value of options granted to employees and consultants during the year. Depreciation and amortization expenses are based on the estimated useful life of our assets and include the amortization of deferred software development costs and intangible assets acquired in the acquisition of Micropower Corporation. The Company operates internationally with 100% of its revenue derived from non-Canadian sources. Under the Company's licensing agreements, the majority of the Company's revenue is received in Euros and U.S. dollars. Consequently, the Company is exposed to currency fluctuations, which result in foreign currency gains or losses, which are reported in this expense category.

FINANCIAL REVIEW

Chartwell realized strong top line growth and continued profitability in 2005. Total revenue increased by 46.3% to $17,849K compared to $12,201K in 2004; net income before taxes grew by 77.0% while net income remained consistent with the prior year. The growth in total revenue was attributable to both the organic growth within our installed base of clients and incremental revenue generated from new clients.

In 2005, the majority of Chartwell's total revenue was generated from long term licensing agreements that generally extend from three to five years. In 2005, we added new licensees and began to diversify our revenue to include revenue from other sources.

In 2005, the Company continued to invest in the growth of its business. In May, the Company acquired Micropower Corporation Limited. This acquisition gave the Company a significant technology boost in poker software and added eighteen technologists to our poker development team. The Company also extended the capabilities and capacity of the development teams in other product areas, product deployment, and customer support through a staged investment program which added technical resources, tools and supporting infrastructure throughout the year. Capital expenditures were approximately $1.0 million in 2005 and total headcount, including part-time employees and consultants, increased to one hundred and twenty-four from seventy-seven in 2004. These investments were necessary to continue to deliver on our product, revenue and customer support initiatives.

Increased expenditures will continue to be necessary in 2006 to sustain and build for long-term growth.

Chartwell continued to strengthen its balance sheet in 2005. Cash and short-term investments increased to $19,122K compared to $9,314K in 2004. The Company's balance sheet was further strengthened by the completion of a private placement of $11.0 million in the first quarter of 2005. The Company's strong cash and working capital positions will allow us to continue to pursue future growth without the need for additional financing.

Chartwell's internal control systems continue to evolve as the Company grows. We believe these systems are sufficient to execute our business plan and to provide meaningful results upon which to manage our business.

SELECTED ANNUAL FINANCIAL DATA

Comparison of the years ended October 31, 2005 and 2004:

CONSOLIDATED STATEMENT OF OPERATIONS & DEFICIT

Year ended October 31,	2005	% Of Revenue	2004	% Of Revenue	2003	% Of Revenue
(Amounts in Thousands, Except per Share D ata)						
Software license fees	$ 16,393	91.8	$ 11,268	92.4	$ 6,300	86
Software set-up fees	657	3.7	798	6.5	920	12.6
Interest and other	799	4.5	135	1.1	109	1.5
	17,849	100.0%	12,201	100.0%	7,329	100.0%
Expenses						
Software development & support	6,037	33.8	4,418	36.2	3,288	44.9
Sales and marketing	2,194	12.3	1,320	10.8	878	12.0
General and administrative	1,625	9.1	2,179	17.9	1,069	14.6
Amortization of intangible assets	105	0.6	-	-	-	-
Amortization of deferred software development costs	235	1.3	98	0.8	110	1.5
Stock-based compensation	637	3.6	103	0.8	-	0.0
Depreciation & amortization	260	1.5	244	2.0	137	1.9
Foreign currency loss	376	2.1	233	1.9	795	10.8
	11,469	64.3%	8,595	70.4%	6,278	85.7%
Net income before taxes	6,380	35.7%	3,606	29.6%	1,051	14.3%
Income taxes	2,382	13.3%	(415)	-3.4%	(630)	-8.6%
Net Income	$ 3,998	22.4%	$ 4,021	33.0%	$ 1,681	22.9%
EBITDA	6,535	36.6%	3,815	31.3%	1,189	16.2%
Net income per share						
Basic	$ 0.22		$ 0.28		$ 0.12	
Diluted	$ 0.20		$ 0.24		$ 0.12	

October 31,	**2005**	2004	2003
(Amounts in Thousands)			
Consolidated Balance Sheet Data			
Cash & short-term investments	**$ 19,122**	$ 9,314	$ 5,178
Working Capital	**20,933**	10,549	6,545
Total Assets	**32,753**	14,962	9,219
Deferred revenue	**473**	1,095	1,688
Total Shareholders equity	**28,847**	13,122	7,305

RESULTS OF OPERATIONS

YEAR ENDED OCTOBER 31, 2005 COMPARED TO YEAR ENDED OCTOBER 31, 2004.

REVENUE

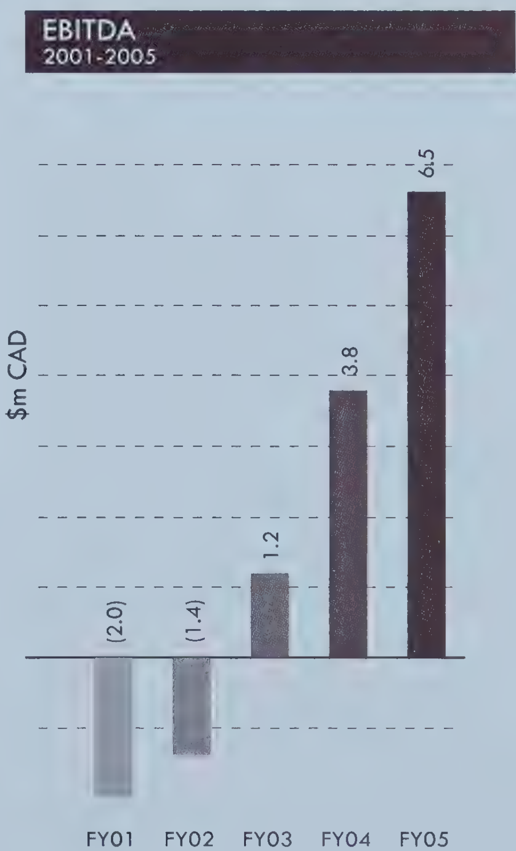
Compared to 2004, total revenue in 2005 increased by 46.3%.

Total revenues increased to $17,849K for the year ended October 31, 2005 compared to $12,201K for the year ended October 31, 2004. Revenue growth is primarily attributable to the significant growth in software license fees which increased 45.5% to $16,393K for the year ended October 31, 2005 compared to $11,268K in the year ended October 31, 2004. License fees remain the biggest contributor to revenue and represented 91.8% of total revenue in fiscal 2005 which is consistent with 92.4% of revenue in fiscal 2004. Looking forward, we expect that license fees as a percentage of revenue will remain consistently high.

Set-up fee revenue decreased 17.7% to $657K in the year ended October 31, 2005 compared to $798K in the year ended October 31, 2004. The decrease is primarily attributable to smaller set-up fees from new clients. We expect set-up fees to continue to decrease as a percentage of revenue in the future.

Interest and other revenues increased 491.9% to $799K in the year ended October 31, 2005 compared to $135K in the year ended October 31, 2004. In fiscal 2005, Chartwell entered into a software development services agreement with one customer to provide software development services, which resulted in $353K of other revenue which was not present in 2004. In addition, interest income was higher in 2005 due to the short-term investments balance significantly increasing to $15.2 million in 2005 from $3.3 million in 2004.

We anticipate that revenues will continue to increase during our fiscal year 2006, as we enter into new software licensing agreements, software development services agreements and as we continue to earn increasing revenues from our installed base of customers.



OPERATING EXPENSES

Compared to 2004, total expenses in 2005 increased by 33.4%.

Total expenses increased to $11,469K in the year ended October 31, 2005 compared to $8,595K in the year ended October 31, 2004. The increase in operating expenses mainly reflects the Company's investment program, which began in fiscal 2004 and continued in 2005. During the year the Company acquired Micropower Corporation and added technical resources, tools, and infrastructure which contributed to increased salary, depreciation and amortization expenses. In addition the 2005 results reflect the impact of expensing of employee stock options commencing November 1, 2004.

As a percentage of total revenue, total operating expenses decreased to 64.3% in the current year compared to 70.4% in the prior year. Operating margins (defined as the difference between total revenue and total expenses as a percentage of revenue) have increased to 35.7% in 2005 versus 29.6% in 2004. As Chartwell continues to build efficiencies in our cost structure, we expect operating margins to increase accordingly.

SOFTWARE DEVELOPMENT & SUPPORT

Software development and support costs include the salary and benefit costs of software development, quality assurance and customer implementation and support personnel working on the continuing enhancement of our products as well as quality assurance and testing activities. These expenses also include independent contractors and consultants, recruitment costs, deferred set-up expenses and allocated operating expenses.

Software development and support costs continue to represent the Company's largest expenditure area. In 2005, software development and support costs, net of deferred software development costs, increased by 36.6% to $6,037K compared to $4,418K in 2004. Costs relating to the development of software are expensed as incurred unless they meet the criteria for deferral and amortization under generally accepting accounting principles. In 2005, the Company deferred costs of $662K compared to $175K in 2004. This deferral had the effect of reducing software development and support costs by the equivalent amount in the respective years.

The Company's product development focus continues to be reflected in its employee demographics as approximately 83% of the total employee population were dedicated to product planning, design, development, deployment and support. Salaries and benefits accounted for 86.8% of software development costs in 2005 compared 82.8% in 2004. The increased salary costs reflect the addition of approximately 34 development and technology related employees since November 1, 2004 of which 18 are the result of the acquisition of Micropower in May 2005.

As a percentage of revenue, software development and support expenses, net of deferred software development costs of $662K, decreased to 33.8% in 2005 compared to 36.2% in 2004, reflecting increased efficiencies in our cost structure.

Due to the increasing demands for new gaming products and the Company's product development and support initiatives, we anticipate adding technical resources in fiscal 2006 which will result in a corresponding increase in software development expenses, consistent with our growth strategy.

SALES AND MARKETING

Sales and marketing expenses include the salary and benefit costs of sales and marketing personnel, advertising, trade shows, travel, marketing materials and facility lease costs.

Sales and marketing expenses increased by 66.3% to $2,194K in 2005 versus $1,320K in 2004. The increase reflects a full year of costs associated with our London, U.K sales and marketing team. In addition, advertising, trade shows and travel costs have increased to due to our increased marketing activities.

As a percentage of revenue, sales and marketing costs have increased to 12.3% in 2005 versus 10.8% in 2004, reflecting Chartwell's increased investment in expanding our European presence.

GENERAL AND ADMINISTRATIVE

General and administrative (G&A) expenses include the salary and benefit costs of corporate personnel, legal and professional fees associated with the Company's public filings, annual audit and quarterly review fees, bad debt expenses and all costs associated with investor relations. Our corporate staff includes finance and accounting, investor relations, IT support and corporate administrative staff.

G&A expenses decreased by 25.4% to $1,625 from $2,179K for the year ended October 31, 2005 compared to the same period of 2004. The reason for this decrease is twofold. Firstly, there was a partial recovery of a $225K bad debt which was expensed in 2004. In addition, certain discretionary compensation was reduced in 2005. Offsetting these decreases, other G&A expenses increased due to additional infrastructure costs required to support growth including professional fees, office expenses, administration, etc.

As a percentage of revenue, G&A expenses decreased to 9.1% in 2005 from 17.9% in 2004. The reasons for these changes are explained above.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets is related to amortization charges on the customer contracts and intellectual property acquired in the acquisition of Micropower. The expense for 2005 was $105K, with no comparative expense in 2004. The expense recorded at October 31, 2005 relates to the amortization of the acquired intangibles from the acquisition date to October 31, 2005. The value recorded for customer contracts is being amortized over the contract period for each acquired contract (i.e., as cash flows are being generated for Chartwell). The value recorded for intellectual property is being amortized straight-line over five years, which is Management's best estimate of the time period that the acquired intellectual property will provide future value to Chartwell.

AMORTIZATION OF DEFERRED SOFTWARE DEVELOPMENT COSTS

Amortization of deferred software development costs for 2005 was $235K compared to $98K for 2004. In fiscal 2003 and fiscal 2004 the Company deferred $531K and $175K, respectively, of software development costs relating to the development of the Company's community poker product. Management has estimated that the appropriate amortization period would be three years. The Company began amortizing these costs on a straight line basis in the third quarter of fiscal 2004. Therefore, the increase in amortization in 2005 is due to a full year of amortization in 2005 versus only six months of amortization in 2004. In fiscal

2005, the Company deferred an additional $662K of software development costs related to the development of version 2.0 of the Company's community poker product, which builds on the intellectual property acquired in the acquisition of Micropower Corporation. These costs have not been amortized to date, given that this product has not yet been launched.

STOCK-BASED COMPENSATION

The Company recorded $637K of stock-based compensation expense for 2005 versus $103K for 2004. Stock-based compensation expense relates to the amortization of the fair value of stock options granted to employees, directors and consultants. Expenses are amortized over the vesting period of three to five years. The increase in this expense over the prior year is due to the prior year expense only including the expense associated with the grant of options to consultants in the fourth quarter of 2004. The Company retroactively adopted, without restatement, the Canadian accounting standards for stock-based compensation to employees effective November 1, 2004. Therefore, no associated expense related to employees is recorded in 2004. The Company had issuances of options each quarter throughout 2005, which increased the expense quarter-over-quarter throughout the fiscal year.

DEPRECIATION & AMORTIZATION

Depreciation and amortization expenses remained fairly consistent at $260K in 2005 versus $244K in 2004. Although net book values have increased at October 31, 2005 versus October 31, 2004, additions in the third and fourth quarters of 2005 were significant, resulting in lower depreciation costs in 2005 relative to the increase in net book value.

As a percentage of revenue, depreciation and amortization expenses decreased to 1.5% in 2005 versus 2.0% for 2004. It is expected that continued investment in computer hardware and software will be required as the Company continues to grow but that depreciation and amortization should remain fairly constant as a percentage of revenue.

FOREIGN CURRENCY LOSS

The Company incurred a foreign currency loss of $376K for 2005 compared to a foreign currency loss of $233K for 2004. The increased foreign currency losses experienced in 2005 were due to the weakening of the Euro and the US dollar in comparison to the Canadian dollar, which resulted in losses in the value of the Company's foreign cash and receivables. The Company does not utilize hedges or forward contracts to mitigate foreign currency risk.

PROVISION FOR INCOME TAXES

Income tax assets relate to the Company's future tax benefits which arose from loss carry-forwards and research and development costs. The valuation of tax assets is based on the amount of tax benefits available combined with the determination as to when the tax benefits will be realized and the tax rate in effect at that time. The tax assets are based on Management's best estimates of the timing of the recovery of these assets.

Income taxes for 2005 were $2,382K versus an expense recovery of ($415K) in 2004. Tax expense in 2005 is due to the Company no longer having any valuation allowance remaining and is taxable in 2005. The 2005 tax expense reflects the non-deductibility of stock-based compensation and increased income from operations for 2005, versus the recognition of a net tax recovery due to write-off of valuation allowance in 2004.

EBITDA

EBITDA (defined as net income less interest, plus taxes, depreciation and amortization), increased by 71.4% to $6,535K in 2005 from $3,815K for 2004. Chartwell has shown strong growth in revenues and operating margins, which has positively impacted the EBITDA position of the Company for the year ended October 31, 2005.

Net Income

Net income decreased by 0.6% to $3,997K for the year ended October 31, 2005 versus $4,022K for the year ended October 31, 2004. Although revenues and operating margins showed growth in 2005 over 2004, the Company incurred significant stock-based compensation expense due to the adoption of the accounting standards for stock-based compensation to employees in fiscal 2005. As well, the Company incurred tax expense in 2005 compared to 2004 when the Company recorded a tax recovery due to the previously unused valuation allowance.

Diluted earnings per share were $0.20 for the year ended October 31, 2005 compared to $0.24 in the same period of 2004. The decrease in the diluted earnings per share in the current year reflects the impact of the additional shares issued in the private placement financing in December of 2004.

Liquidity and Capital Resources

Positive cash generation continued to add to a strong balance sheet. At October 31, 2005 the Company had no debt, $19,122K in cash and short term investments and working capital (defined as current assets less current liabilities) of $20,933K.

Operating Activities

Operating cash flow for the year ended October 31, 2005 was $3,522K compared to $4,032K for the year ended October 31, 2004. The decrease is mainly attributable to a smaller reduction in the change in working capital balances resulting from an increase in the accounts receivable balance due to slower collections from certain customers. In addition, in October 2005, a software development services contract was completed in exchange for a demand promissory note of $647K which decreased cash from operating activities in 2005. This decrease is offset by increases non-cash expenditures (i.e. stock based compensation, amortization of deferred development costs, amortization of intangible assets, future income tax expense, depreciation and amortization) which are added back to the net income figure to arrive at cash from operations.

Financing Activities

Cash flows from financing activities were $10,524K for 2005 versus $883K for 2004. The Company's financing activities consisted primarily of the issuance of shares for cash resulting from the exercise of stock options and the issuance of shares from a private placement financing in December of 2004, offset by cash used to repurchase the Company's shares through the Normal Course Issuer Bid, as well as cash used to repay a portion of the amount due to Honeycomb Holdings Limited recorded on the acquisition of Micropower Corporation. For the year ended October 31, 2005, the Company realized net proceeds of $1,370K from the exercise of 1,051,379 stock options at an average price of $1.30, compared to net proceeds of $856K from the exercise of stock options in 2004. The December 2004 private placement provided cash of $11,000K for 2,365,592 shares from

treasury at a price of $4.65 per share. Cash from financing activities decreased by $787K in 2005 due to the repurchase of 192,500 shares at an average cost of $4.09 under the Normal Course Issuer Bid dated September 26, 2005. An additional decrease in cash from financing activities was due to a payment made to Honeycomb Holdings Limited resulting from certain milestones being met under the purchase agreement for Micropower Corporation, which required Chartwell to make a payment of approx. $294K in Canadian equivalent currency. There were no other significant financing activities in 2005.

Investing Activities

The Company's investing activities consisted mainly of the acquisition of Micropower on May 20, 2005 with other investments in the purchase of short term investments, the increase in deferred development costs and the purchase of property and equipment which include computers and software for internal use and furniture and fixtures. Total cash used in investing activities was $16,141K and $2,385K for the fiscal years ended October 31, 2005 and 2004, respectively. Cash used in investing activities for the year ended October 31, 2005 was attributable to the business acquisition of Micropower, which was a cash outlay of ($2,602K). In addition, the Company purchased $11,902K of short-term investments in 2005 compared to the purchase of $1,605K in short term investments during 2004, and purchased $959K of property and equipment in 2005 versus the purchase of $604K in property and equipment during 2004. Deferred software development costs incurred in 2005 were $662K versus $175K in 2004, representing increased investment in development of our Flash poker product and poker community products.

SELECTED QUARTERLY FINANCIAL DATA

The following table sets out selected unaudited financial information of the Company on a consolidated basis for the last eight quarters.

Fiscal 2005 Quarters
(in thousands except per share data)

	Q1	Q2	Q3	Q4	Annual
Revenue					
Software license fees	$ 4,622	$ 3,630	$ 4,028	$ 4,113	$ 16,393
Software set-up fees	115	125	348	69	657
Interest & other	78	122	132	467	799
	4,815	3,877	4,508	4,649	17,849
Expenses					
Software development & support	1,325	1,319	1,754	1,639	6,037
Sales & marketing	600	551	488	555	2,194
General & administrative	458	227	418	522	1,625
Amortization of intangible assets	-	-	19	86	105
Amortization of deferred software development costs	59	59	59	58	235
Stock-based compensation	118	91	198	230	637
Depreciation & amortization	36	68	54	102	260
Foreign currency loss	(20)	(15)	338	72	375
	2,576	2,300	3,328	3,265	11,469
Net income before taxes	2,239	1,577	1,180	1,384	6,380
Income taxes	753	643	452	534	2,382
Net Income	$ 1,486	$ 934	$ 728	$ 850	$ 3,998
Basic earnings per share	$ 0.09	$ 0.05	$ 0.04	$ 0.04	$ 0.22
Diluted earnings per share	$ 0.08	$ 0.05	$ 0.04	$ 0.04	$ 0.20

Fiscal 2004 Quarters
(In Thousands except per share data)

	Q1	Q2	Q3	Q4	Annual
Revenue					
Software license fees	$ 1,939	$ 2,699	$ 3,393	$ 3,237	$ 11,268
Software set-up fees	215	191	184	208	798
Interest & other	44	26	21	44	135
	2,198	2,916	3,598	3,489	12,201
Expenses					
Software development & support	1,002	1,006	1,172	1,238	4,418
Sales & marketing	291	289	437	303	1,320
General & administrative	480	715	327	657	2,179
Amortization of deferred software development costs	-	-	39	59	98
Stock-based compensation	-	-	-	103	103
Depreciation & amortization	35	53	103	53	244
Foreign currency loss	(41)	(78)	105	247	233
	1,767	1,985	2,183	2,660	8,595
Net income before taxes	431	931	1,415	829	3,606
Income taxes	45	(33)	204	(631)	(415)
Net Income	$ 386	$ 964	$ 1,211	$ 1,460	$ 4,021
Basic earnings per share	$ 0.03	$ 0.07	$ 0.08	$ 0.10	$ 0.28
Diluted earnings per share	$ 0.03	$ 0.06	$ 0.07	$ 0.08	$ 0.24

QUARTERLY RESULTS

FOR THE THREE MONTHS ENDED OCTOBER 31, 2005 COMPARED TO THE THREE MONTHS ENDED OCTOBER 31, 2004.

REVENUE

In the three months ended October 31, 2005, total revenue increased by 33.2% to $4,649K compared to $3,489K in the same period of 2004. The growth in total revenue was mainly attributable to both the growth in volumes from existing major licensees and revenue from new customers, resulting in an increase in software license fees in the fourth quarter of 2005 compared to the comparative quarter of 2004. Software license fees increased by 27.1% to $4,113K in the fourth quarter of 2005 from $3,237K in the fourth quarter of 2004.

Software set-up fees decreased by 66.8% to $69K from $208K for the three months ended October 31, 2005 and 2004, respectively. Software set-up fees, as a percentage of total sales revenue, decreased to 1.5% from 6.0% for the three months ended October 31, 2005 and 2004. This is due to smaller set-up fees from new clients. We expect that software set-up fees will represent a progressively smaller percentage of the Company's sales revenue as we continue to build our license fee component of revenue.

Interest and other income increased to $467K

from $44K for the three months ended October 31, 2005 and 2004, respectively. The increase was attributable to a software development services agreement completed for $353K in the fourth quarter of 2005, to which there is no comparative revenue item in the fourth quarter of 2004. In addition, the Company had significantly higher cash and investment balances resulting from increased cash flow from operations and the private placement in December 2004, resulting in higher interest income.

OPERATING EXPENSES

Total operating expenses increased by 22.7% to $3,265K for the three months ended October 31, 2005 compared to $2,660K for the same period of 2004.

The increase in operating expenses mainly reflects the impact of the Company's investment program. During the three months ended October 31, 2005, increased expenses were incurred for continued development of new casino and soft games and our poker community, enhancements to our back-office system, project management and quality assurance and testing. This increased expenditure level is expected to continue in order to sustain growth.

SOFTWARE DEVELOPMENT & SUPPORT

Software development and support costs, net of deferred software development expenses of $550K, increased by 32.4% to $1,639K for the three months ended October 31, 2005 compared to $1,238K for the same period of 2004. Salary and consulting expenses increased 93.6% for the three months ended October 31, 2005 compared to the same period of 2004. The increased salary expenses reflect the addition of approximately 34 development and technology related staff since November 1, 2004, of which 16 are the result of the acquisition of Micropower in May 2005.

As a percentage of revenue, software development and support expenses were 35.3% and 35.5% for the three months ended October 31, 2005 and 2004, respectively. Software development and support expenses are increasing in line with increased revenues and are consistent with the Company's growth strategies.

SALES AND MARKETING

Sales and marketing expenses increased by 83.2% to $555K from $303K for the three months ended October 31, 2005 compared the same period of 2004. The increase is attributable to the additional sales and marketing headcount, which has grown from 3 to 5 over the comparative periods.

As a percentage of revenue, sales and marketing expenses increased to 11.9% from 8.7% for the three months ended October 31, 2005 and 2004, respectively. This increase is due to Chartwell's increased investment in growing our business and, thus, increased travel and trade show costs being incurred in fiscal 2005 versus fiscal 2004.

GENERAL AND ADMINISTRATIVE

G&A expenses decreased by 20.5% to $522K from $657K for the three months ended October 31, 2005 compared to the same period of 2004. The reason for this decrease is due to an accrual for year-end bonuses of $220k which was provided for in the fourth quarter of 2004, whereby similar bonuses were not accrued for 2005. Offsetting these decreases, other G&A expenses increased due to additional infrastructure costs required to support growth including professional fees, office expenses, administration, etc.

As a percentage of revenue, G&A expenses decreased to 11.2% for the three months ended October 31, 2005 from 18.8% for the same period of 2004. As revenues continue to increase, we expect this percentage to continue to decrease.

AMORTIZATION OF INTANGIBLE ASSETS

Amortization of intangible assets is related to amortization charges on the customer contracts and intellectual property acquired in the acquisition of Micropower. The expense for the three months ended October 31, 2005 is $86K, with no comparative expense in 2004. The value recorded for customer contracts is being amortized over the contract period for each acquired contract (i.e. as cash flows are being generated for Chartwell). The value recorded for intellectual property is being amortized over five years, which is Management's best estimate of the time period that the acquired intellectual property will provide future value to Chartwell.

AMORTIZATION OF DEFERRED SOFTWARE DEVELOPMENT COSTS

Amortization of deferred software development costs for the three months ended October 31, 2005 was $58K compared to $59K for 2004. In fiscal 2003 and fiscal 2004 the Company deferred $531K and $175K, respectively, of software development costs relating to the development of the Company's Community Poker product. Management has estimated that the appropriate amortization period would be three years. The Company began amortizing these costs on a straight line basis in the third quarter of fiscal 2004. As the amortization is being recorded on a straight-line basis, the amortization expense is consistent for these periods.

STOCK- BASED COMPENSATION

The Company recorded $230K of stock-based compensation expense for the three months ended October 31, 2005 versus $103K for the three months ended October 31, 2004. Stock-based compensation expense relates to the amortization of the fair value of stock options granted to employees, directors and consultants. Expenses are amortized over the vesting period of three to five years. The increase in this expense in the two comparative periods is due to the prior year expense only including the expense associated with the grant of options to consultants in the fourth quarter of 2004. The Company retroactively adopted, without restatement, the Canadian accounting standards for stock based compensation to employees effective November 1, 2004. Therefore, no associated expense related to employees is recorded in 2004. The company had issuances of options each quarter throughout 2005, which increased the expense quarter-over-quarter throughout the fiscal year.

DEPRECIATION & AMORTIZATION

Depreciation and amortization expenses increased by 92.5% to $102K for the three months ended October 31, 2005 versus $53K for the similar period of 2004. This increased depreciation expense is due to increased net book values of property and equipment at October 31, 2005 versus October 31, 2004. Significant hardware additions were required in the fourth quarter of 2005 to integrate the Micropower staff into the Chartwell environment and to build up their infrastructure. It is expected that continued investment in computer hardware and software will be required as the Company continues to grow.

FOREIGN CURRENCY LOSS

The Company incurred a foreign currency loss of $72K for the three months ended October 31, 2005 compared to a foreign currency loss of $247K for the comparative period of 2004. The decreased foreign currency losses experienced in the fourth quarter of 2005 were due to a smaller relative increase in the value of the Canadian dollar in Q4 2005 versus Q4 2004. The Company does not utilize hedges or forward contracts to mitigate foreign currency risk.

PROVISION FOR INCOME TAXES

Income taxes for the three months ended October 31, 2005 were $534K versus an expense recovery of ($631K) in 2004. Tax expense in the fourth quarter of 2005 is due to the Company no longer having any valuation allowance remaining and was therefore fully taxable in fiscal 2005. The 2005 tax expense reflects the non-deductibility of stock-based compensation expense and increased income from operations for 2005, versus the recognition of a net tax recovery due to the realization of a valuation allowance in 2004.

EBITDA

EBITDA (defined as net income less interest, plus taxes, depreciation and amortization), increased by 69.0% to $1,516K for the three months ended October 31, 2005 from $897K for the comparative period of 2004. Chartwell has shown strong growth in revenues and operating margins, which has positively impacted the EBITDA position of the Company for the quarter ended October 31, 2005.

NET INCOME

Net income decreased by 41.8% to $850K for the three months ended October 31, 2005 versus $1,460K for the three months ended October 31, 2004. Although revenues and operating margins showed growth in 2005 over 2004, the Company's tax expense has increased significantly given that the Company was taxable in 2005 while there was a tax recovery in 2004 due to unused valuation allowance being used for losses carried forward to 2004.

Diluted earnings per share were $0.04 for the three month period ended October 31, 2005 compared to $0.08 in the same period of 2004. The decrease in the diluted earnings per share in the fourth quarter of 2005 reflects the impact of the additional shares issued in the private placement financing in December of 2004.

LIQUIDITY AND CAPITAL RESOURCES

OPERATING ACTIVITIES

Operating cash flow for the three months ended October 31, 2005 was $592K compared to $1,313K for the three months ended October 31, 2004. The decrease is mainly attributable to a smaller reduction in the change in working capital resulting from an increase in the balance of accounts receivable due to slower collections from certain customers. As well, the Company issued a promissory note to a customer, drawing on cash in the fourth quarter of 2005 in comparison to the fourth quarter of 2004.

FINANCING ACTIVITIES

Cash flows used in financing activities were ($638K) for the three months ended October 31, 2005 versus cash flows provided by financing activities for the three months ended October 31, 2004 of $126K. The Company's financing

activities in the fourth quarter of 2005 consisted primarily of the issuance of shares for cash resulting from the exercise of stock options, offset by cash used to repurchase the Company's shares through the Normal Course Issuer Bid, as well as cash used to repay a portion of the Due to Honeycomb Holdings Limited recorded on acquisition of Micropower Corporation. There were no other significant financing activities in the fourth quarter of 2005.

Investing Activities

Cash flows used in investing activities were ($77K) for the three months ended October 31, 2005 versus cash flows used in investing activities for the three months ended October 31, 2004 of ($57K). The Company's investing activities in the fourth quarter of 2005 consisted mainly of the purchase of short term investments, the increase in deferred development costs and the purchase of property and equipment which include computers and software for internal use and furniture and fixtures.

Contractual Obligations

The Company's future minimum annual payments under operating and capital leases are the following:

2006	$605,837
2007	$562,099
2008	$512,898
2009	$85,498
Thereafter	$ NIL

Related Party Transactions

SG&A expenses for the year ended October 31, 2005 include legal fees of $60K and consulting fees of $165K paid to certain officers of the Company in the normal course of business. Amounts due from related parties of $158K consist of amounts due from certain Company officers and directors. The balance bears 6% interest, is secured by 189 thousand common shares of the Company and has no set terms of repayment.

Accounting Policies and Estimates

Critical accounting policies and methods used in the preparation of the Company's financial statements are described in note 1 to the consolidated financial statements of the Company for the year ended October 31, 2005.

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Areas of significant estimates include the recoverability of deferred software development costs, amortization periods for property and equipment, amortization of intangible assets, revenue recognition, provision for doubtful accounts, the realization of future tax assets, deferred set-up fee expenses and stock based compensation. Actual results could differ from Management's best estimates and underlying assumptions as additional information becomes available in the future.

The significant accounting policies which the Company believes are most critical to aid in fully understanding and evaluating its reported financial results include the following:

Deferred Software Development Costs

Research costs are expensed as incurred. Costs related to the development of software are expensed as incurred. Costs related to the development of software are expensed as incurred unless such costs meet the criteria for deferral and amortization under Canadian generally accounting principles. The criteria include identifiable costs attributable to a clearly defined product, the establishment of technical feasibility, identification of a market for the software, the Company's intent to market the software and the existence of adequate resources to complete the project. Software development costs are amortized over an estimated useful life of three years, commencing in the year when commercial sales of the products commence. Capitalized software development costs are evaluated in each reporting period to determine whether it continues to meet the criteria for continued deferral and amortization.

Revenue Recognition

The Company enters into contractual agreements with licensees that provide for the provision of graphics, web design and software implementation services, the licensing of software, and the provision of unspecified software upgrades over the fixed term of the contract. Revenue under such contractual arrangements is not recognized before there exists persuasive evidence that an arrangement exists, delivery has occurred, the fee is fixed and determinable, and the collectibility of outstanding amounts is considered probable. As the Company's contractual arrangements provide for the delivery of multiple elements, the Company evaluates whether vendor-specific objective evidence ("VSOE") exists to allow for the allocation of the arrangement fee between the undelivered elements and the delivered elements for revenue recognition purposes. To date, as the period provided for in contractual arrangements for the provision of unspecified upgrades is consistent with the license period, the Company has not been able to identify VSOE and allocate revenue between delivered and undelivered elements. Accordingly, set-up fees are recognized ratably over the term of the contract, commencing upon completed delivery of the implementation and integration services. Direct and incremental costs incurred with respect to the set-up contractual arrangements have been deferred as deferred set-up expense and are recognized ratably over the term of the contract consistent with that for the related revenue recognition.

License fees, including fees from master license agreements, most of which are contingent upon customer usage, are recognized on an accrual basis as earned over the life of the contract.

Fees for software development services are recognized on a percentage-of-completion basis over the term of the contract and are recorded to other revenue.

Accounts Receivable

The Company carries its accounts receivable at cost less a reserve for unrealized foreign exchange losses and less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its accounts receivable and establishes an allowance for doubtful accounts. The allowance is based on the circumstances of each customer relationship together with an assessment of the history of past write-offs and collections. The allowance for doubtful accounts

generally relates to unpaid license fees including amounts that may be owed under minimum license obligations pursuant to the Company's license agreements.

Goodwill

The valuation of goodwill is based on the value of the reporting unit to which goodwill is attributed. To the extent that the valuation exceeds the net book value of the related reporting unit, no write-down is necessary. Goodwill is tested for impairment annually or more frequently if events or circumstances indicate that the asset might be impaired.

Stock-based Compensation

Effective November 1, 2002, the Company adopted the Canadian standards for accounting for stock-based compensation and other stock-based payments. The new recommendations require equity instruments awarded to employees and non-employees and the cost of the service received as consideration to be measured and recognized based on the fair value of the equity instruments issued. Compensation expense is recognized over the period of related employee service, usually the vesting period of the equity instrument awarded. In addition, the new standards require that equity instruments issued to non-employees be recorded at their fair value at the date they are earned. Prior to November 1, 2004, the Company elected to follow an alternative method of accounting for stock options awarded to employees and recognized no compensation expense when stock options were granted. On November 1, 2004, the Company elected to adopt this new policy retroactively without restatement of prior periods. As a result, $351,646, representing the estimated value of stock options issued to employees in 2003 and 2004, was charged to deficit and credited to contributed surplus on November 1, 2004.

Risks and Uncertainties

General

The Company and its subsidiaries operate in a rapidly changing environment that involves numerous risks and uncertainties, many of which are beyond our control and which could have a material effect on our business, revenue, operating results and financial condition. The following highlights some of these risks and uncertainties.

Government Regulation

The Company and our software licensees are subject to applicable laws in the jurisdictions in which they operate, such as Belize, Malta, Gibraltar, Netherlands Antilles and others. Some jurisdictions have introduced legislation and rules attempting to restrict or prohibit online gaming, while other jurisdictions have taken the position that online gaming is legal and have adopted (or are in the process of considering) legislation to regulate online gaming.

The UK intends to establish a regulated market for online gaming. The Isle of Man and Alderney, both in the British Isles, are already regulated environments for Internet gaming, based on standards consistent with land-based gaming. The British government has enacted legislation to create a regulated and licensed jurisdiction for Internet gaming. Compliance with that legislation may result in increased costs that could have a material adverse effect on the Company's revenue, results of operations and financial condition.

Existing legislation in some jurisdictions, including US federal and state statutes, has been and could continue to be construed to prohibit or restrict gaming through the use of the Internet

and there is a risk that governmental authorities may view the Company and/or our licensees as having violated such statutes. Therefore, there is a risk that legal proceedings could be initiated against us, our licensees, Internet Service Providers ("ISPs") and others involved in the Internet gaming industry. This could potentially result in our incurring substantial litigation and legal expenses, penalties, fines, injunctions or other remedies or restrictions being imposed upon us or our licensees while diverting the attention of Management. Such proceedings could have a material adverse effect on the Company's revenue, results of operations and financial condition.

As companies and consumers involved in online gaming, including our licensees and their players, are located in different jurisdictions around the world, there is uncertainty regarding the future regulatory framework for online gaming. There is a risk that proposed legislation supporting online gaming may not be passed and that existing legislation supporting online gaming may be changed. Changes to the regulatory framework could have a material adverse effect on the Company's revenue, results of operations and financial condition.

E-Commerce Law

In addition to laws pertaining specifically to online gaming, Chartwell may become subject to any number of laws and regulations that may be adopted with respect to the Internet and electronic commerce. As well, current laws, which predate or are incompatible with Internet commerce, may be enforced in a manner that restricts the electronic commerce market. The application of such pre-existing Canadian, US and international laws regulating communications or commerce in the context of the Internet and electronic commerce is uncertain.

Moreover, it may take years to determine the extent to which existing laws relating to issues such as intellectual property ownership and infringement, libel and personal privacy are applicable to the Internet.

New laws and regulations that address issues such as user privacy, pricing, online content regulation, taxation, advertising, intellectual property, information security, and the characteristics and quality of online products and services may be enacted.

The adoption of new laws or regulations relating to the Internet, or particular applications or interpretations of existing laws, could decrease the growth in the use of the Internet, decrease the demand for our products and services, increase our cost of doing business or could otherwise have a material adverse affect on the Company's revenue, results of operations and financial condition.

Payment Processing

Commencing in December 2001, certain financial institutions in the US ceased to accept online gaming transactions through their credit cards due to the uncertainty regarding the legality of Internet gaming in the US. This event negatively impacted the online gaming industry as a whole, our licensees and Chartwell. If other financial institutions or credit card issuers in the US or other countries implement similar or additional restrictions, this would have a material adverse effect on the Company's revenue, results of operations and financial condition. This risk has been partially mitigated, however, with Chartwell's ongoing focus on the European market.

Competition

Some of Chartwell's competitors have significantly greater financial, technical, marketing and sales resources and may be able to respond more quickly to changes in customer needs. Additionally, these competitors may be able to devote a greater number of resources to the enhancement, promotion and sale of their games and gaming systems. Our future success is dependent upon our ability to win our share of sales (in the form of new licensees) against these larger competitors. Failure to do so could result in a material adverse effect on the Company's revenue, results of operations and financial condition.

Industry Consolidation

Recently, there has been a significant amount of consolidation in the industry in which we operate. There exists the potential that such consolidation could shrink the list of prospective customers for our services through a rationalization of preferred software vendor suppliers. This factor could have a material adverse effect on the Company's business, revenues, results of operations and financial condition.

Renewal of Software License Agreements

The majority of the Company's revenue is in the form of software license fees. Licensees pay an ongoing fee for the licensing and support of the Company's software under a software licensing agreement, which typically has a three to five year term. The license fee, or royalty, is calculated as a percentage of each licensee's level of activity. There is no assurance that Chartwell will be able to renew agreements with existing clients or that the Company will be able to renew agreements under similar financial and other terms. The failure to renew agreements or the failure to renew agreements under similar financial and other terms could have a material adverse effect on the Company's revenue, results of operations and financial condition.

Dependence on Market Growth

The online gaming market has experienced and is expected to continue to experience significant growth. There can be no assurance that the market for the Company's gaming solutions will continue to grow, that consumers will continue to adapt Chartwell's solutions or that Chartwell will be successful in selling into new and existing markets. If the markets in which our products compete fail to grow, or if the business of the licensees who use our products fails to grow, or grows more slowly than Chartwell currently anticipates, the Company's business, results of operations and financial condition may be materially adversely affected.

Internet Viability and System Infrastructure and Reliability

The growth of Internet usage has caused interruptions and delays in processing and transmitting data over the Internet. There can be no assurance that the Internet infrastructure or the Company's own network systems will continue to be able to support the demands placed on us by the continued growth of the Internet, the overall online gaming industry or that of our customers.

The Internet's viability could be affected by delays in the development or adoption of new standards and protocols to handle increased levels of Internet activity or due to increased government regulation. If critical issues concerning the commercial use of the Internet are not favourably resolved (including security, reliability, cost, ease of use, accessibility and quality of service), if the necessary infrastructure

is not sufficient, or if other technologies and technological devices eclipse the Internet as a viable channel, this may negatively affect Internet usage, and our business, revenues, financial condition and operating results will be materially adversely affected.

End-users of our software depend on ISPs, online service providers, gaming site operators and our system infrastructure for access to the sites operated by our licensees. Many of these services have experienced service outages in the past and could experience service outages, delays and other difficulties due to system failures, instability and interruption. Our licensees may lose customers as a result of delays or interruption in service, including delays or interruptions relating to high volumes of traffic or technological problems. As a result, we may not be able to meet the level of service that we have contracted for, and we may be in breach of our contractual commitments, which could have a material adverse effect on the Company's business, revenues, results of operations and financial condition.

Also, the increasing presence of viruses and cyber attacks may affect the viability and infrastructure of the Internet and could materially adversely affect our business.

Security

The Company's Internet gaming software is reliant on technologies and network systems to securely handle transactions and user information over the Internet, which may be vulnerable to system intrusions, unauthorized access or manipulation. As users become increasingly sophisticated and devise new ways to commit fraud, our security and network systems may be tested and subject to attack. There is no assurance that such intrusions or attacks will or can be prevented in the future and any system intrusion or attack may cause a delay, interruption or financial loss, which could have a material adverse effect on our business, results of operations and financial condition.

Reliance on Other Parties

The Company's products rely on ISPs to allow our licensees' customers and servers to communicate with each other. If ISPs experience service interruptions, it would prevent communication over the Internet and would impair our ability to carry on our business.

The ability of our customers to process e-commerce transactions depends on banking processing and credit card systems. Any system failure, including network, software or hardware failure that causes a delay or interruption in e-commerce services could have a material adverse effect on the business of our licensees and accordingly, this could have a material adverse effect on the Company's business, results of operations and financial condition.

Failure to Manage Growth Successfully

The Company's business has grown rapidly in the last four years. The accelerated growth of our business places a strain on managerial and financial resources. This growth, our expansion and the acquisition of Micropower Corporation have resulted in substantial growth to the number of our employees, the scope of our infrastructure and the geographic area of our operations, resulting in increased responsibilities for existing and new management personnel. Our ability to successfully manage this growth depends, in large part, upon our ability to: retain and attract qualified management; retain and attract skilled technical personnel to continue to develop reliable solutions that respond to the evolving needs of our customers; and retain and attract sales and marketing personnel to create an expanding presence in the rapidly growing marketplace for

our products. The inability to achieve any of these objectives could harm the Company's business, results of operations and financial condition.

Dependence on Key Personnel

The Company's success is largely dependant upon the performance of its key management, technical and sale personnel. Completion for highly skilled management, technical and sales personnel is intense. The inability to retain keep employees and to attract and retain additional key employees who have the necessary skills may have a material adverse effect upon the Company's growth and profitability.

Risks Associated with Currency Fluctuations

The majority of Chartwell's revenue is realized in foreign currencies, while the majority of the Company's expenses are incurred in Canadian Dollars. Fluctuations in the exchange rate between the Canadian Dollar and other currencies, particularly the US Dollar and the Euro, may have a material adverse effect on the Company's results of operations and financial condition.

Chargebacks

As a result of increased player deposit levels, our customers are subject to higher exposure to chargebacks, which may also result in possible penalties. Chargebacks are deposit transactions credited to an end user's account that is later reversed or repudiated. This factor could have a material adverse effect on the business of our licensees and accordingly, a material adverse effect on the Company's business, results of operations and financial condition.

Lengthy Sales Cycle

The Company's sales cycle (beginning with an interested customer and culminating in the entering into of a commercial agreement with a customer) typically ranges from six to twelve months and may be longer. This lengthy sales cycle limits Chartwell's ability to forecast the timing of new sales in a specific financial quarter. Any extension in the length of our sales cycle may have a material adverse effect on the Company's revenues and financial condition.

Intellectual Property Protection

The Company relies on a combination of laws and contractual provisions to establish and protect our rights in our software and proprietary technology. Our ability to protect our proprietary information is crucial to the success of our business. We do not currently possess any patent or copyright registrations in Canada, the United States or any other jurisdiction. There can be no assurance that the steps we have taken to protect our proprietary rights will be adequate to deter misappropriation of our technology. Any such misappropriation could have a material adverse effect on the Company's business, revenues, results of operations and financial condition.

Similarly, given the nature of the business environment in which we operate, other parties have threatened to issue legal proceedings against the Company based on alleged infringement of intellectual property rights. None of these threats has yet resulted in legal proceedings, however, there can be no assurance that such threats would never materialize into actual litigation or that the Company would prevail in such litigation. An adverse determination in legal proceedings, a costly litigation process or a costly settlement could have a material adverse effect

on the Company's business, revenues, results of operation and financial condition.

Proposed Transactions

There is no proposed asset or business acquisition or disposition transactions pending as at October 31, 2005.

Off Balance Sheet Arrangements

As at October 31, 2005, the Company has not entered into any off balance sheet arrangements

Financial Instruments and Other Instruments

The Company's financial instruments consist of cash, short term investments, accounts receivable, notes receivable, amounts due from related parties, accounts payable and accrued liabilities, income taxes payable and capital lease obligations. The fair value of these financial instruments approximates their carrying values, except as noted below. It is management's opinion that the Company is not exposed to significant interest and or credit risk. The Company's credit risk lies in its accounts receivable where the balance is due from a small number of customers. The Company's short term investments consist of investments in low risk, fixed interest, corporate and government bonds. A substantial portion of the Company's revenue is exposed to currency fluctuations.

The Company's notes receivable consists of a two promissory notes. The first is a US $500,000 non interest bearing note due on demand from a customer under a Master License Agreement expected to be repaid within one year. The fair value, based on market interest rates, is CDN $553,411 versus the carrying value recorded of CDN $588,550. In addition, a promissory note in the amount of CDN $335,957 bearing interest at 12% is due from another arm's length party. The terms of the promissory note require payments of CDN $20,000 to be made for the period from November 30, 2006 to July 31, 2007 and a lump sum payment of the remaining outstanding balance, including accrued interest, to be made on August 31, 2007. At October 31, 2005, the fair value of the promissory note approximates its carrying value.

The Company does not use financial derivatives or "other financial instruments".

Other MD&A Requirements

The Company has 19,169,371 common shares outstanding at January 28, 2006. If all of the Company's options were exercised, the Company would have 20,846,991 common shares outstanding.

Management believes that the disclosure controls and procedures that are currently in place are effective.

The Company's 2005 Annual Information Form is available on www.sedar.com.

MANAGEMENT'S REPORT TO THE SHAREHOLDERS

The consolidated financial statements and all information contained in this Annual Report are the responsibility of management and the consolidated financial statements are approved by the Board of Directors of the Company. The financial statements have been prepared by management and are presented fairly in accordance with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgments based on currently available information. The Company maintains internal control systems designed to ensure that financial information is relevant and accurate and that assets are safeguarded. The financial information presented throughout this Annual Report is consistent with the consolidated financial statements. KPMG LLP, an independent firm of Chartered Accountants, has been appointed by the shareholders as external auditors of the Company. The Auditors' Report to the Shareholders, which describes the scope of their examination and expresses their opinion, is presented on the following page.

The Audit Committee of the Board of Directors, whose members are unrelated and independent of management, meets at least four times a year with management and the external auditors to oversee the discharge of the responsibilities of the respective parties. The Audit Committee reviews the independence of the external auditors, pre-approves audit and permitted non-audit services and reviews the consolidated financial statements and other financial disclosure documents before they are presented to the Board of Directors for approval.

"signed"
Darold H. Parken
President and CEO

"signed"
Don Gleason
CFO

Calgary, Canada
January 28, 2006

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of Chartwell Technology Inc. as at October 31, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for each of the years in the two-year period ended October 31, 2005. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at October 31, 2005 and 2004 and the results of its operations and its cash flows for each of the years in the two year period ended October 31, 2005 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP

Chartered Accountants

Calgary, Canada
January 28, 2006

Consolidated Balance Sheets
As at October 31 (stated in Canadian dollars)

		2005		2004
Assets				
Current assets:				
Cash	$	3,901,250	$	5,995,863
Short term investments (note 1 (m))		15,220,888		3,318,286
Accounts receivable		4,271,829		1,916,309
Deferred set-up expense		97,595		58,585
Prepaid expenses and deposits		332,990		230,632
Notes receivable (note 11)		588,550		117,873
Future income tax asset (note 10)		56,026		115,000
Total current assets		24,469,128		11,752,548
Due from related parties (note 9)		157,997		178,961
Property and equipment (note 3)		1,182,194		431,824
Goodwill (notes 2, 6(c))		2,749,317		811,666
Intangible Assets (note 4)		1,784,060		-
Deposits		15,411		-
Deferred software development costs (note 5)		1,034,909		607,900
Deferred set-up expense		154,801		68,186
Notes receivable (note 11)		356,649		180,573
Future income tax asset (note 10)		848,189		929,964
	$	32,752,655	$	14,961,622
Liabilities and Shareholders' Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	550,300	$	708,900
Income taxes payable (note 10)		1,989,722		-
Due to Honeycomb Holdings Limited (note 2)		760,475		-
Current portion of obligations under capital lease		16,520		15,640
Deferred revenue		219,105		478,952
Total Current liabilities		3,536,122		1,203,492
Deferred revenue		254,290		615,748
Due to Honeycomb Holdings Limited (note 2)		110,750		-
Obligations under capital lease		4,273		20,793
Shareholders' equity:				
Share capital (note 6)		28,046,490		16,502,188
Contributed surplus (note 8)		1,139,928		102,572
Deficit		(339,198)		(3,483,171)
Total Shareholders equity		28,847,220		13,121,589
Commitments (note 12)				
	$	32,752,655	$	14,961,622

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"signed"
Peter Kinash
Director

"signed"
Darold H. Parken
Director

Consolidated Statements of Operations and Deficit
As at October 31 (stated in Canadian dollars)

	2005	2004
Revenue:		
Software license fees	$ 16,392,603	$ 11,268,494
Software set-up fees	657,037	798,343
Interest and other	798,930	134,640
	17,848,570	12,201,477
Expenses		
Software development and support	6,037,265	4,417,981
Sales and marketing	2,194,027	1,319,633
General and administrative	1,624,609	2,178,974
Amortization of deferred software development costs	235,316	98,048
Stock-based compensation	636,844	102,572
Depreciation and amortization	259,877	244,251
Amortization of intangible assets	105,356	-
Foreign currency loss	375,411	233,201
	11,468,705	8,594,660
Net income before income taxes	6,379,865	3,606,817
Income taxes (note 10):		
Current tax expense	1,989,722	-
Future income tax expense (reduction)	392,737	(414,964)
	2,382,459	(414,964)
Net income	3,997,406	4,021,781
Deficit, beginning of year	(3,483,171)	(7,504,952)
Retroactive stock-based compensation expense (note 1(h))	(351,646)	-
Repurchase of common shares under Normal Course Issuer Bid (note 6(d))	(501,787)	-
Deficit, end of year	$ (339,198)	$ (3,483,171)
Net income per share:		
Basic	$ 0.22	$ 0.28
Diluted	0.20	0.24

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flow
Years ended October 31 (stated in Canadian dollars)

	2005	2004
Cash provided by (used in):		
Operations:		
Net income	$ 3,997,406	$ 4,021,781
Depreciation and amortization	259,877	244,251
Amortization of deferred software development costs	235,316	98,048
Unrealized foreign exchange losses	50,978	110,235
Stock-based compensation	636,844	102,572
Amortization of intangible assets	105,356	-
Interest income capitalized	(8,943)	(11,413)
Future income tax expense (reduction)	392,737	(414,964)
Gain on disposal of property and equipment	-	(9,213)
Contracts acquired on acquisition	-	25,000
	5,669,571	4,166,297
Change in non-cash working capital:		
Accounts receivable	(2,512,096)	(34,819)
Due from related parties	29,907	20,000
Deferred set-up expense	(125,625)	83,071
Prepaid expenses	(102,358)	(100,904)
Notes receivable	(646,753)	-
Accounts payable and accrued liabilities	(158,600)	491,888
Income tax payable	1,989,722	-
Deferred revenue	(621,305)	(593,235)
	(2,147,108)	(133,999)
	3,522,463	4,032,298
Financing:		
Issue of shares for cash	12,370,045	855,799
Repurchase of shares for cash	(786,909)	-
Share issue costs	(749,517)	-
Payment to Honeycomb Holdings Limited (note 2)	(294,275)	-
Repayment of lease obligations	(15,640)	27,446
	10,523,704	883,245
Investing:		
Purchase of short term investments	(11,902,602)	(1,605,396)
Purchase of property and equipment	(958,583)	(604,404)
Deferred software development costs	(662,325)	(175,000)
Business acquisition (note 2)	(2,601,859)	-
Long term deposit paid	(15,411)	-
	(16,140,780)	(2,384,800)
Increase (decrease) in cash	(2,094,613)	2,530,743
Cash, beginning of year	5,995,863	3,465,120
Cash, end of year	$ 3,901,250	$ 5,995,863
Supplemental cash flow information:		
Interest received	$ 432,731	$ 123,228
Interest paid	(1,608)	(2,048)

See accompanying notes to consolidated financial statements.

Chartwell Technology Inc. ("Chartwell" or the "Company") is incorporated under the Business Corporations Act (Alberta). The Company specializes in the development of games and entertainment content for Internet and Intranet deployment. The Company's software products and games are designed for use in gaming, entertainment, advertising and promotional applications.

1. Significant accounting policies:

(a) Basis of presentation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Gateway Technology Inc. ("GTI"), a United States company, Chartwell Games Corp. ("CGC") (formerly Gaming Tech Corporation), a Belize company, Chartwell Games (Malta) Ltd. ("CGC Malta"), a Malta Company, Chartwell Games (Malta) Holding Ltd. ("CGC Malta Holding"), a Malta company, and Micropower Corporation Limited ("Micropower"), a Gibraltar company. GTI is a US incorporated company, which was acquired on November 1, 1998, CGC was incorporated in Belize and commenced operations November 1, 1999, CGC Malta and CGC Malta Holding were both incorporated in Malta and commenced operations December 2, 2004, and Micropower was acquired by the Company effective May 20, 2005 (see Note 2). The accounting policies of the Company are in accordance with generally accepted accounting principles in Canada and Canadian dollars is the functional currency.

(b) Property and equipment:

Property and equipment are recorded at cost and amortization is provided on a declining balance basis using the following rates:

Capital assets under lease	30%
Computer equipment	30%
Furniture and equipment	20%
Leasehold improvements	5 years

(c) Deferred software development costs:

Research costs are expensed as incurred. Costs related to the development of software are expensed as incurred unless such costs meet the criteria for deferral and amortization under Canadian generally accepted accounting principles. The criteria include identifiable costs attributable to a clearly defined product, the establishment of technical feasibility, identification of a market for the software, the Company's intent to market the software, and the existence of adequate resources to complete the project. Software development costs are amortized over an estimated useful life of three years, commencing in the year when commercial sales of the products commence. Capitalized software development is evaluated in each reporting period to determine whether it continues to meet the criteria for continued deferral and amortization.

(D) Foreign currency translation:

Accounts of foreign operations, all of which are considered financially and operationally integrated, are translated to Canadian dollars using average exchange rates for the year for revenue and expenses. Monetary assets and liabilities are translated at the year-end current exchange rate and non-monetary assets and liabilities are translated using historical rates of exchange. Gains or losses resulting from these translation adjustments are included in net income.

Transactions in foreign currencies are translated at rates in effect at the time of the transaction. Monetary assets and liabilities are translated at current rates. Gains and losses are included in income.

(E) Revenue recognition:

The Company enters into contractual agreements with licensees that provide for the provision of graphics, web design and software implementation services, the licensing of software, and the provision of unspecified software upgrades over the fixed term of the contract. Revenue under such contractual arrangements is not recognized before there exists persuasive evidence that an arrangement exists, delivery has occurred, the fee is fixed and determinable, and the collectibility of outstanding amounts is considered probable.

As the Company's contractual arrangements provide for the delivery of multiple elements, the Company evaluates whether vendor–specific objective evidence ("VSOE") exists to allow for the allocation of the arrangement fee between the undelivered elements and the delivered elements for revenue recognition purposes. To date, as the period provided for in contractual arrangements for the provision of unspecified upgrades is consistent with the license period, the Company has not been able to identify VSOE and allocate revenue between delivered and undelivered elements. Accordingly, set-up fees are recognized ratably over the term of the contract, commencing upon completed delivery of the implementation and integration services. Direct and incremental costs incurred with respect to the set-up contractual arrangements have been deferred as deferred set-up expense and are recognized ratably over the term of the contract consistent with that for the related revenue recognition.

License fees, including fees from master license agreements, most of which are contingent upon customer usage, are recognized on an accrual basis as earned over the life of the contract.

Fees for software development services are recognized on a percentage-of-completion basis over the term of the contract and are recorded in other revenue.

(F) Per share amounts:

Basic per share amounts are calculated using the weighted average number of shares outstanding during the year. Diluted per share amounts are calculated based on the treasury stock method, which assumes that any proceeds obtained on exercise of options would be used to purchase common shares at the average market price during the period. The weighted average number of shares outstanding is then adjusted by the net change.

(g) Income taxes:

The Company follows the liability method of accounting for income taxes, whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply when the asset is realized or the liability settled. A valuation allowance is recorded against future income tax assets if it is more likely than not that all or a portion of the assets will not be realized.

(h) Stock-based compensation:

Effective November 1, 2002, the Company adopted the Canadian standards for accounting for stock-based compensation and other stock-based payments. The new recommendations require equity instruments awarded to employees and non-employees and the cost of the service received as consideration to be measured and recognized based on the fair value of the equity instruments issued. Compensation expense is recognized over the period of related employee service, usually the vesting period of the equity instrument awarded. In addition, the new standards require that equity instruments issued to non-employees be recorded at their fair value at the date they are earned. Prior to November 1, 2004, the Company elected to follow an alternative method of accounting for stock options awarded to employees and recognized no compensation expense when stock options were granted. On November 1, 2004, the Company elected to adopt this new policy retroactively without restatement of prior periods. As a result, $351,646, representing the estimated value of stock options issued to employees in 2003 and 2004, was charged to deficit and credited to contributed surplus on November 1, 2004.

(i) Use of estimates:

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Areas of significant estimate include the recoverability of deferred software development costs, goodwill impairment assumptions, amortization periods for property and equipment, provision for doubtful accounts, the realization of future tax assets, deferred set-up fee expenses, and stock-based compensation. Actual results could differ from management's best estimates and underlying assumptions as additional information becomes available in the future.

(j) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated as of the date of the business combination to the Company's reporting units that are

expected to benefit from the synergies of the business combination. Goodwill is not amortized and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset might be impaired.

An annual review of impairment was prepared on October 31, 2005. Management concluded that there were no circumstances that indicated that impairment had occurred at that time.

(K) INTANGIBLE ASSETS:

Acquired customer contracts associated with business acquisitions are initially recorded at fair value and amortized on a straight-line basis over the terms of the underlying contracts. Acquired intellectual property is recorded at fair value and amortized on a straight-line basis over its estimated useful life of five years, using half-year rule in the year of the addition.

(L) COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform with the current year financial statement presentation.

(M) CASH AND SHORT TERM INVESTMENTS:

Cash consists of bank deposits. Short-term investments consist of maturities of three months or less and are recorded at cost which does not differ materially from fair value.

2. BUSINESS ACQUISITION:

Effective May 20, 2005, the Company acquired all of the issued and outstanding shares of Micropower Corporation Limited ("Micropower") for US$3,000,000 consisting of US$2,000,000 of cash paid on closing and US$1,000,000 of payables due to Honeycomb Holdings Limited ("Honeycomb"), the parent company of Micropower pursuant to a Share Purchase Agreement (the "Share Purchase Agreement"). The unpaid amount is payable based on certain future milestones and events which are expected to occur by the end of fiscal 2006, of which US$250,000 was paid prior to year-end. In addition, transaction costs of Cdn$115,634 were incurred and allocated to the purchase price.

Included in the Share Purchase Agreement is contingent consideration payable to Micropower based on the successful negotiation and closing of sales agreements with customers that Micropower was in negotiations with at the time of the acquisition. The contingent consideration is equal to a maximum of 55,000 shares of the Company to be issued to Honeycomb based on securing certain revenue contracts. In addition, nine seventeenths (9/17) of any payments received from specified customers would be due to Micropower. Since the likelihood of the specified customers entering into such agreements cannot be determined beyond a reasonable doubt, the contingent consideration has been valued at nil consideration. As sales agreements are entered into with the specified customers, the associated share issuances and cash payments will be recorded as additional costs of the acquisition at that time.

The acquisition has been accounted for using the purchase method and the results of operations are included in the consolidated statement of income from the date of acquisition.

Fair value of net assets acquired:		Cdn $
Non-cash working capital	$	(16,772)
Capital assets		51,664
Customer contracts		281,045
Intellectual property		1,608,371
Goodwill		1,937,651
	$	3,861,959

Consideration:		
Cash	$	2,486,225
Due to Honeycomb Holdings Limited		1,260,100
Transaction costs		115,634
	$	3,861,959

3. PROPERTY AND EQUIPMENT:

2005	Cost	Accumulated amortization	Net book value
Property and equipment under lease	$ 90,152	$ (63,640)	$ 26,512
Computer equipment	1,562,029	(709,796)	852,233
Furniture and equipment	407,643	(138,341)	269,302
Leasehold Improvements	37,941	(3,794)	34,147
	$ 2,097,765	$ (915,571)	$ 1,182,194
2004			
Property and equipment under lease	$ 90,152	$ (52,279)	$ 37,873
Computer equipment	732,740	(514,523)	218,217
Furniture and equipment	264,627	(88,893)	175,734
	$ 1,087,519	$ (655,695)	$ 431,824

4. INTANGIBLE ASSETS:

		2005	
	Cost	Accumulated amortization	Net book value
Customer contracts	$ 281,045	$ (11,991)	$ 269,054
Intellectual property	1,608,371	(93,365)	1,515,006
Net book value	$ 1,889,416	$ (105,356)	$ 1,784,060

5. DEFERRED SOFTWARE DEVELOPMENT COSTS:

	2005	2004
Software development costs	$ 1,892,422	$ 1,230,097
Accumulated amortization	(857,513)	(622,197)
Net book value	$ 1,034,909	$ 607,900

6. SHARE CAPITAL:

(A) AUTHORIZED:

100,000,000 common shares without par value

(B) ISSUED:

	Number of shares		Amount
Balance, October 31, 2003	15,987,701		14,809,723
Issued for cash on exercise of stock options	701,932		855,799
Release of shares from escrow (c)	-		836,666
Shares cancelled from escrow and returned to treasury	(666,667)		-
Balance, October 31, 2004	16,022,966	$	16,502,188
Issued for cash on Private Placement financing	2,365,592		$11,000,002
Issue Costs	-		(749,517)
Income Tax effect of issue costs	-		251,988
Compensation options issued to underwriters	-		(184,928)
Issued for cash on exercise of stock options	1,051,379		1,370,043
Cancelled on Normal Course Issuer Bid (d)	(192,500)		(279,348)
Transfer from contributed surplus on options exercised	-		136,062
Balance, October 31, 2005	19,247,437	$	28,046,490

(C) RELEASE OF ESCROWED SHARES AND GOODWILL:

On November 1, 1998, the Company acquired all of the issued and outstanding shares of Gateway Technology Inc. ("GTI") for consideration of 1,000,000 common shares. Under the terms of the Purchase Agreement, those shares were placed in escrow and were releasable from time totime as one escrowed share for each $1.00 of cash flow generated by GTI subsequent to its acquisition by the Company. On February 12, 2004 the TSX Venture Exchange provided approval for the release of 333,333 shares and on April 27, 2004 the shares were released from escrow. The release of the shares was accounted for as an additional cost of the purchase of GTI, equal to the fair value of the shares on February

12, 2004 of $836,666. The remaining 666,667 shares were cancelled and returned to treasury.

The additional consideration of $836,666 was assigned to license contracts acquired, in the amount of $25,000 and the remaining $811,666 to goodwill.

On August 18, 2004 application was made to the Alberta Securities Commission for the release of 955,400 shares held in escrow on behalf of the principals of the Company and others, subject to the direction and determination of the regulatory authorities in the Province of Alberta. On October 5, 2004 consent was given by the Alberta Securities Commission to the release of all shares held pursuant to that agreement 375,000 shares remain in escrow and are subject to the direction and determination of the securities regulatory authorities in the Province of British Columbia. On August 9, 2005 application was made to the Alberta Securities Commission for the release of 112,500 shares held in escrow subject to the direction and determination of the regulatory authorities in the Province of Alberta. This application remains outstanding at year-end.

(D) A Normal Course Issuer Bid:

A normal course issuer bid was filed with the Toronto Stock Exchange on September 26, 2005 whereby the Company is permitted to purchase and cancel up to 970,000 of its common shares prior to September 25, 2006. During 2005, 192,500 shares were repurchased at an average per share value of $1.45, resulting in $279,348 being recorded as a reduction to share capital and $501,787 as a reduction in retained earnings.

(E) Per share amounts:

The weighted average number of common shares outstanding for the year was 18,186,010 (2004 – 14,249,151). Diluted shares of 19,645,771 for 2005 reflect the dilutive effect of the exercise of the options outstanding. Contingently returnable and issuable shares held in escrow have been excluded from the calculations.

(F) Stock option plan:

The Company has a stock option plan for its directors, officers, employees and key consultants whereby an amount of options to acquire a maximum of 3,264,000 common shares may be granted subject to certain terms and conditions. Stock option vesting privileges are at the discretion of the Board. The exercise price for stock options granted is no less than the quoted market price on grant date.

A summary of the status of the plan as of October 31, 2005 and 2004 and the changes during the years is presented below:

	October 31, 2005		October 31, 2004	
	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding, beginning of year	2,355,834	$ 1.49	2,616,100	$ 1.19
Granted	538,936	7.97	600,000	2.45
Exercised	(1,051,379)	1.30	(701,932)	1.22
Forfeited	(100,001)	3.75	(158,334)	1.31
Outstanding, end of year	1,743,390	$ 3.48	2,355,834	$ 1.49

The following table summarizes information about the stock options outstanding and exercisable at October 31, 2005.

	Options Outstanding			Options Exercisable	
Range of exercise prices	Number	Weighted average remaining contractual life (years)	Weighted average exercise price	Number	Weighted average exercise price
$ 1.00 - 1.50	635,453	1.8	$ 1.06	500,678	$ 1.07
1.51 - 2.00	199,001	1.2	1.73	199,001	1.73
2.01 - 2.50	25,000	3.3	2.45	8,333	2.45
2.51 - 3.00	400,000	3.3	2.63	166,665	2.62
3.01 - 8.00	121,936	1.0	5.02	111,936	5.10
8.01-10.00	312,000	5.1	9.00	6,250	9.00
10.01 - 10.50	50,000	5.5	10.40	-	-
$ 1.00 -10.50	1,743,390	2.3	$ 3.48	992,863	$ 1.98

In 2005, 141,936 options were issued in connection with the Private Placement. The estimated fair value of those options of $184,928 has been charged to share issue costs.

As the Company is following the fair value based method of accounting for stock option awards, compensation expense related to options granted to employees and consultants was $636,844 (2004 - $102,572) with an offsetting credit to contributed surplus.

7. Stock-based Compensation:

The estimated fair value of stock options issued during the year was determined using the Black-Scholes option pricing model using the following weighted average assumptions and fair value of options:

	2005
Risk free interest rate	4.00%
Expected hold period to exercise (years)	4.61
Volatility in the price of the Company's shares	45.31%
Dividend yield	-
Weighted average fair value of options	$3.44

8. Contributed Surplus:

Balance, October 31, 2004	$ 102,572
Retroactive application of stock-based compensation expense	351,646
Stock-based compensation expense	636,844
Stock-based compensation expense of options issued to Underwriters	184,928
Transferred to share capital on exercise of options	(136,062)
Balance, October 31, 2005	$ 1,139,928

9. Related party transactions:

For the year ended October 31, 2005, the Company incurred legal fees of $60,000 (2004 - $60,000) and consulting fees of $165,000 (2004 - $165,000) to certain directors of the Company in the normal course of business. These transactions were measured at the exchange amount and recorded in general and administrative expenses.

Amounts due from related parties of $157,997 (2004 - $178,961) consist of amounts due from certain Company officers, directors and employees. The balance bears 6% interest, is secured by 189,200 common shares of the Company and has no set terms of repayment.

10. Income taxes:

Income tax expense (reduction) differs from the amount that would be computed by applying the basic combined Canadian federal and provincial statutory income tax rate to the net income for the year. The reasons for the differences are as follows:

	2005	2004
Net income before income taxes	$ 6,379,865	$ 3,606,817
Combined Canadian federal and provincial statutory rate	33.62%	34.4%
Computed provision	$ 2,144,911	$ 1,240,746
Difference in foreign tax rates, net of foreign property accrual income	-	(218,301)
Realization of future tax asset not previously recognized	-	(444,602)
Stock-based compensation	214,107	35,284
Non deductible expenses	20,898	16,873
Reduction of valuation allowance	-	(1,044,964)
Other	2,543	-
Income tax expense (reduction)	$ 2,382,459	$ (414,964)

The adjustment in respect of differences in foreign tax rates includes amounts arising from the differences in taxable income in the various jurisdictions in which the Company operates.

The components of the Company's net future income tax asset at October 31, 2005 and 2004 are as follows:

2005	Canada	United States	Total
Net operating losses	$ -	$ 19,393	$ 19,393
Property and equipment	7,780	-	7,780
Intangible assets	(86,059)	-	(86,059)
Share issue costs	201,590	-	201,590
Resource deductions	61,386	-	61,386
Deferred development costs	681,351	-	681,351
Deferred revenue	63,973	-	63,973
Deferred set-up expense	(25,806)	-	(25,806)
	$ 904,215	19,393	$ 923,608
Less: valuation allowance	-	(19,393)	(19,393)
	904,215	-	904,215

2004	Canada	United States	Total
Net operating losses	$ -	$ 19,393	$ 19,393
Property and equipment	114,097	-	114,097
Share issue costs	297	-	297
Resource deductions	75,785	-	75,785
Deferred development costs	658,860	-	658,860
Deferred revenue	238,545	-	238,545
Deferred set-up expense	(42,620)	-	(42,620)
	1,044,964	19,393	1,064,357
Less: valuation allowance	-	(19,393)	(19,393)
	$ 1,044,964	$ -	$ 1,044,964

The Company has net operating losses carry-forward for United States income tax purposes of approximately $57,038 (2004 – $57,038) available for deduction against future year's taxable income. These losses expire between 2018 and 2019.

11. Financial instruments:

The Company's financial instruments consist of cash, short term investments, accounts receivable, notes receivable, amounts due from related parties, accounts payable and accrued liabilities, income taxes payable and capital lease obligations. The fair value of these financial instruments approximate their carrying values, except as noted below. It is management's opinion that the Company is not exposed to significant interest and or credit risk. The Company's credit risk lies in its accounts receivable where the balance is due from a small number of customers. The Company's short term investments consist of investments in low risk, fixed interest, corporate and government bonds. A substantial portion of the Company's revenue is exposed to currency fluctuations.

Notes Receivable

The Company's notes receivable consists of a two promissory notes. The first is a US $500,000 non interest bearing note due on demand from a customer under a Master License Agreement expected to be repaid within one year. The fair value, based on market interest rates, is CDN $553,411 versus

the carrying value recorded of CDN $588,550. In addition, a promissory note in the amount of CDN $335,957 bearing interest at 12% is due from another arm's length party. The terms of the promissory note require payments of CDN $20,000 to be made for the period from November 30, 2006 to July 31, 2007 and a lump sum payment of the remaining outstanding balance, including accrued interest, to be made on August 31, 2007. At October 31, 2005, the fair value of the promissory note approximates its carrying value.

12. COMMITMENTS:

Future minimum annual payments under operating and capital leases are as follows:

2006	$	605,837
2007	$	562,099
2008	$	512,989
2009	$	85,498
Thereafter	$	-

13. SEGMENTED INFORMATION:

The Company has aggregated its operating segments (North America and Europe) into one reporting segment as management has determined that the nature of the operations in each segment meets the aggregation criteria specified by Canadian accounting standards.

The Company's software set-up and license fees are from domestic and foreign entities and originate from the following geographical areas of operation:

2005	Canada	Europe	Total
Software set-up fees	$ -	$ 657,037	$ 657,037
Software license fees	91,135	16,301,468	16,392,603
Goodwill	1,182,194	-	1,182,194
Total assets	20,380,585	12,372,070	32,752,655

2005	Canada	Europe	Total
Software set-up fees	$ -	$ 798,343	$ 798,343
Software license fees	204,154	11,064,340	11,268,494
Goodwill	431,824	-	431,824
Total assets	7,186,451	7,775,171	14,961,622

During the year ended October 31, 2005, four licensees (2004 – four), each of which provided more than 10% of the Company's total sales revenue, accounted for 59.8% (2004 – 83.4%) of the Company's 2005 software license fees revenue.

FORWARD-LOOKING STATEMEN

Certain statements contained in this Annual Report may constitute forward-looking statements. These statements relate to future events or our future performance. All statements other than statements of historical fact may be forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as "seek", "anticipate", "plan", "continue", "estimate", "expect", "may", "will", "project", "predict", "potential", "targeting", "intend", "could", "might", "should", "believe" and similar expressions. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. We believe that the expectations reflected in the forward-looking statements are reasonable based upon management's current views but no assurance can be given that these expectations will prove to be correct and such forward-looking statements should not be unduly relied upon. These statements speak only as of the date of this Annual Report. We do not intend, and do not assume any obligation, to update conclusions, forecasts or projections that may be contained in these forward-looking statements, whether as a result of new information, future events, or otherwise. No assurance can be given that actual results, performance or achievement expressed in, or implied by these forward-looking statements will occur, or if they do, that any benefits may be derived from them. Past results have been applied in drawing a conclusion or making a forecast or projection set out in the forward-looking information.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of factors that may include, but are not limited to: the impact of government regulation, the impact of price competition, loss of business or credit risks associated with current and prospective major customers, general industry and market conditions and growth rates, currency rate fluctuations and the impact of consolidations in the online gaming industry.

Corporate Info

Corporate Information

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